10/20/87 C2710-2

Pensions & Investment Age

© Entire contents copyright 1987 by Crain Communications Inc. All rights reserved.

The newspaper of corporate and institutional investing • $4.00 an issue • $80 a year • October 19, 1987

Fund managers flee bonds

By Jacqueline Dutton

Pension funds moved a record amount of money out of bonds and into cash equivalents during the second quarter, a reaction to rising interest rates that, in turn, weakened institutional demand for bonds and fueled additional rate hikes.

Rising rates then increased the cost of capital for corporations and government.

In data gathered for its quarterly investment report to be released Oct. 26, the Employee Benefit Research Institute, Washington, said the bond market lost a net total of $5.9 billion during the second quarter, surpassing the record of $4.7 billion in the second quarter of 1985.

In addition, private pension funds liquidated $4.4 billion in stocks during the second quarter, only a fourth of the record net total of $16.7 billion in stocks they sold during the first quarter.

"It's not an incidental blip," Thomas Heneghen, director of Prudential Fixed Income Advisors, Newark, N.J., said of the bond shift. "It's part of an ongoing trend."

Mr. Heneghen said the EBRI numbers don't mean bond managers lost business. "We are seeing more and more portfolios reconfigured into dedicated and immunized bond portfolios," he said. With a rise in rates predicted and consciousness of the provisions of Financial Accounting Standards Board Statement 87 increasing, executives are more interested in covering long-term pension liabilities.

But Mr. Heneghen said pension fund executives aren't about to put all of their money into long-term, liability-oriented portfolios. The remainder of their bond assets have moved out of the intermediate- to long-maturity range and into short-term securities, because "this is where real returns will be made."

The tendency to move into short-term issues explains, in part, the outflow of funds in the bond segment of the EBRI data. According to Joe Piacentini, an EBRI researcher, the institute considers issues with maturities of less than one year to be cash, not debt, instruments.

Fixed-income managers at Oppenheimer Capital Corp., New York, have been finding more relative value in short-term bonds and have been moving money in that direction for six to eight months, said Robert Bluestone, director of fixed income.

Paula Trenier, senior vice president and director of fixed-income research at Frank Russell Co., a Tacoma, Wash.-based consulting firm, said Russell's clients are hiring short- and intermediate-term fixed-income managers. Although motives vary, she said, fund executives generally are shifting into shorter maturities for strategic purposes, including building up a reservoir of funds that can be liquidated easily to pay for unanticipated and constantly growing retirement

Continued on page 66

At press time, the Maryland retirement systems announced it set up a $4 billion dedicated bond portfolio, after selling $2.3 billion in stocks in the largest equity trading and asset shift ever — Page 70.

Inside:

MOVING ALONG: Gulton Industries Inc., which manufactures bus destination signs, is helping put Mark IV Industries in the driver's seat. Mark IV is building an empire by acquiring small companies like Gulton — Page 58.

RICHES FROM RUINS: Associated Inns & Restaurants Co. of America is developing a resort amid the ruins of a Mayan village on the Yucatan Peninsula, being financed through an innovative debt-equity transaction — Page 51.

Borrowers beat bushes for cheap debt finance

Average yield of new debt issues*

Period	Average yield
Jan.	9.418
Feb.	8.890
March	9.395
April	10
May	10.829
June	10.040
July	10.525
August	10.664
Sept.	11.038
Oct.**	11.362

* Excludes mortgage- and asset-backed issues as well as government agency issues
** Through 10/9/87
Source: IDD Information Services Inc., New York

By Brad Rudin

Corporate borrowers and their investment bankers, confronted with the highest interest rates in two years, are scurrying to fashion strategies that reduce the risks and costs of borrowing in a bear market.

Interest swap is becoming a more entrenched part of the new-issue debt market because of the rising rates.

"In a bull market when the 30-year (Treasury) note yields are attractive and industrial companies are using the public new-issues market because they see that long-term rates are attractive, a much lower propor-

Continued on page 69

Non-convertible fixed-yield debt issues*

Period	Amount ($ mils.)
Jan.	11,092
Feb.	10,396.3
March	12,510.4
April	6,289.4
May	6,718.4
June	10,631.7
July	11,067.6
August	8,116.3
Sept.	7,725.5
Oct.**	1,470.9

* Excludes mortgage- and asset-backed issues as well as government agency issues
** Through 10/9/87
Source: IDD Information Services Inc., New York

Bill boosts ESOP role

By Nicky Robertshaw

WASHINGTON — Employee stock ownership plans would become powerful defensive weapons in the corporate anti-takeover arsenal under a bill reported out by the Senate Banking Committee.

The bill contains two key provisions enhancing the attractiveness of ESOPs in takeover situations:

- A company with at least 10% of its stock in an ESOP for at least six months would have 95 days — nearly triple the time that would be allowed other target companies — to fight off an outside takeover bid.
- ESOPs could tap surplus pension assets to launch a defensive bid; otherwise, surplus assets couldn't be used to finance takeovers by either management or corporate raiders.

"The lawyers will find a way to use the ESOP abusively," said Robert A.G. Monks, president of Institutional Shareholder Services Inc., Washington. If the bill becomes law, companies will set up "closet ESOPs" that will be activated in the event of a takeover bid so the company or an outside raider can reap the advantages, he said.

Mr. Monks noted members of management also serve as trustees for ESOPs in many cases, increasing the potential for abuse.

"I feel confident that the courts would not allow the ESOP trustee to do the wrong thing with the funds," said Leigh B. Trevor, a partner with the Cleveland law firm of Jones, Day, Reavis & Pogue and head of Stakeholders in America, a group of corporate executives.

While noting he had not yet studied the provisions of the bill, Mr. Trevor said because of the fiduciary requirement that trustees act in the interest of participants, any potential for abuse would be accompanied by scrutiny in the courts.

The two provisions were included in S. 1323, the Tender

Continued on page 67

PBGC 'security interest' bid

By Nicky Robertshaw

WASHINGTON — Employers with severely underfunded pension funds would have to put up a security interest under a proposal intended to reduce the Pension Benefit Guaranty Corp.'s risk.

The proposal is one of six Assistant Secretary of Labor David Walker, the Reagan administration's top pension official, has vowed to push as pension reform legislation enters the final stages.

His other priorities:

- Establishing a variable-rate premium to ensure the agency can cover both current and future guaranteed benefit liabilities.
- Setting minimum funding standards and related transition rules to prevent the gross funding deficiencies that have resulted in significant losses to both participants and the PBGC.
- Preventing surplus pension funds from going to participants. Under proposals by the Senate and House labor committees, a cushion of 25% of termination liability goes to the participants if a plan terminates and the company would recoup more than 25% of the assets.
- Funding shutdown benefits, perhaps in a separate trust rather than through the minimum funding standards intended for basic guaranteed pension benefits.
- Clarifying the rules for floor-offset arrangements — the most hotly lobbied part of the legislation — to enforce diversification requirements that limit how much employer stock can be held in these plans.

The administration's hit list emerges as it becomes clear the conference committee will be the final battleground for working out differences among four different bills.

The last of the four is expected to be reported out of the Senate Finance Committee before the end of the month. That proposal is said to be a simplified version of the House Ways and Means Committee proposal, as the committee saves its real fire for conference. Earlier this month, the Senate Labor and Human Resources Committee completed work on its bill, which is similar to that of the House Education and Labor Committee.

Still uncertain is when the conference committee would meet. The only sure things are that it will occur after budget reconciliation bills are completed by the tax committees and approved by their respective houses and by Nov. 20. That's when a budget reconciliation bill must be completed, approved by Congress and signed by the president, or provisions of the Gramm-Rudman-Hollings Act would kick in, requiring automatic across-the-board budget cuts.

The little-noticed requirement that employers with plans funded at less than 70% of termination liability pay some sort of security interest as a "safety net" is part of the administration's attempt to reduce employers' ability to transfer — or "put" — their pension liabilities to the PBGC.

That proposal also includes a provision in which filing for reorganization under Chapter 11 of the federal Bankruptcy Code will not be sufficient grounds to prove distress and, therefore, to dump the unfunded pension liability on the PBGC.

"Reduction or elimination of the put option and improvements in the bankruptcy treatment of pension and other employee benefit claims are essential if we are to provide meaningful benefit security, ensure the credibility and equity of the current system and the long-term financial integrity of the PBGC," Mr. Walker said.

He said the amount of the security interest would be the difference between the current level of funding and 70% of termination liability. He did not specify what form this security interest might take.

This proposal echoes part of an amendment by Rep. John J. Duncan, R-Tenn., contained in the House Ways and Means proposal that gives the PBGC an automatic lien against the assets of a company if its defined benefit plan funding level falls below 70%.

This approach is opposed by the Association of Private Pension and Welfare Plans, Washington.

"In our view, nearly all of the changes you'll be asked to approve will undermine, rather than strengthen, defined benefit plans," APPWP Secretary David G. Marshall said in a letter to Senate Labor and Human Resources Chairman Edward M Kennedy, D-Mass. "We urge the committee limit its action to the two issues which we can all agree are related to the financial soundness of the PBGC: a PBGC premium increase and simple rules to strengthen the minimum funding standards."

"We think this would be damaging to companies and it would change the rules of the game," said Alan Reuther, associate general counsel for the United Auto Workers. Such a law would limit a company's ability to get credit, Mr. Reuther said, which ultimately could put companies out of business and eliminate jobs.

Of the proposal to give the 25% cushion

Continued on page 68

Wary managers up cash reserves

By Fred Williams

Concern about rising short-term interest rates and moves to protect market gains caused some institutional investors to raise cash reserves in their equity portfolios in the third quarter.

Cash reserves as measured by INDATA, a Southport, Conn., investment analysis service, increased slightly to 7.4% Sept. 30 from 7.1% June 30. But most of the managers tracked by *Pensions & Investment Age* held substantially more cash.

The wisdom of this was proved in early October when the market dropped 244 points.

"In retrospect, institutional portfolio managers probably wished they had been holding more than the 7.4%," said William T. Kennedy, an Atlanta consultant interpreting the INDATA survey. "They are taking it on the chin with this."

At press time, the Dow Jones industrial average had tumbled 390 points since the second week of August when it hit a high of 2722.

The INDATA universe measures 1,202 institutional equity portfolios totaling more than $153.6 billion. INDATA's equity cash reserves have held almost constant from the 7.3% at the end of 1986.

Among managers tracked by *P&I Age*, Hibernia National Bank, New Orleans, began the third quarter fully invested, but ended the quarter with 10% cash reserves, said Robert Rust, vice president and trust investment officer.

"The move up in short-term rates has had us nervous. We've made a lot of money in the market in the first nine months and, on a fundamental basis, it's hard to make a case for the market now. With the direction in interest rates being higher, we decided to hedge our bets and move toward a little cash," he said.

"Unless we see a change in the direction of interest rates, there's not a lot to push this market much higher." Hibernia manages about $1 billion in equities.

The cash position at Lincoln Capital Management Co., Chicago, also was increased substantially, to 10.6% from 2.9% June 30. Lincoln has about $3 billion in equities.

Most of the increase took place in August, said J. Parker Hall III, president: "It's hard to describe, but we raised cash because we felt the market had been so strong and the bond market so weak it was prudent to raise cash reserves modestly."

Equity cash reserves at Sun Banks, Orlando, Fla., increased slightly to 9% Sept. 30 from 8.8% three months earlier. In October,

Continued on page 63

The *P&I Age* monthly indexes track the changes in the Standard & Poor's 500, Frank Russell Co.'s Russell 3000 stock index, the Ryan Index of fixed-income securities, the Shearson Lehman Government/Corporate bond index and the Salomon Brothers Broad Investment Grade bond index.

P&I Age September Indexes

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	–2.19	35.91	43.50
Russell 3000	–2.18	32.34	37.78
Ryan Index	–2.21	–5.32	–3.22
Shearson Lehman Gov't./Corp.	–2.15	–3.34	–0.38
Salomon BIG	–2.19	–4.43	–1.26

Source: Ryan, Shearson Lehman Hutton Inc. and Frank Russell

Most new accounts*
3rd quarter 1987

Firm	Accounts
Cherokee Resources	6
J.P. Morgan Investment Mgmt.	4
Murdoch & Coll	4
Oechsle International Advisors	4
TCW Realty Advisors	4

*As reported in *Pensions & Investment Age*

Most new assets*
3rd quarter 1987

Firm	$ mils.
MHIC	6,000
Mercury Warburg Investment	2,400
Morgan Grenfell Investment	1,210
Robert Fleming Investment	1,200
Prudential Portfolio Advisors	1,200
Phillips & Drew Fund	800
Copley Real Estate Advisors	400
Martin Currie Investment	400
Mellon Capital	265
Geewax, Terker & Co.	225

*As reported in *Pensions & Investment Age*

Active management outdraws indexing

By Trudy Ring

Active equity managers outpaced indexers in attracting assets in the third quarter, but one huge account pushed bond index funds past active fixed-income firms.

In moves of money reported in *Pensions & Investment Age* during the quarter, $1.07 billion went to active equity managers, while $338 million flowed to stock index funds. Figures are based only on what was published in *P&I Age*; managers may have attracted other accounts.

The equity numbers were similar to those of the second quarter, when active management attracted about three times the amount of assets as index funds (*P&I Age*, Aug. 10). At that time, some consultants said the moves might indicate a belief in value-added management and a suspicion that the period of outperformance by index funds was ending.

Still, a few consultants stressed there's a great deal of interest in passive and semipassive strategies. Quantitative equity manag-

Continued on page 64

Highlights

CASH MANAGEMENT
Wickes moves to cut surcharges ... 45
Investments lack standards ... 45
Cash accounts ... 45

CORPORATE FINANCE
Audit rule railed ... 51
Refuse firm breaks financing tradition ... 51

DEFINED CONTRIBUTION
401(k)s surviving tax reform ... 15
Managers get crack at assets ... 15
Fiduciary rule draws fire ... 16

INTERNATIONAL
Path to Third World rocky ... 31
Funds provide execs most for least ... 31
Institutional influence to grow in Japan ... 31

REAL ESTATE
Managers eye quake options ... 39
Writedowns followed by rebound ... 39
Changes urged for allocations ... 39

GENERAL NEWS
IRS ignores court ruling ... 4
Merganser acquired by principals ... 6
Terminations continue at slow pace ... 8
L.A. County funds international firms ... 10

DEPARTMENTS
Datebook ... 61
Late news ... 70
Letters ... 12
Market beat ... 35
Money movers ... 59
Opinion ... 12
People ... 60
Washington notebook ... 49

Vol. 15, No. 22 — Pensions & Investment Age (ISSN 0273-5466) is published every other Monday at 740 Rush St., Chicago, Ill. 60611. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investment Age, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207. Copyright 1987.

Defined Contribution

Smaller funds take reins

By Jacqueline Dutton

The growth of defined contribution plan assets continues to outpace that of defined benefit assets despite indications the market for new plans is becoming saturated.

While consultants interviewed said most of the larger plan sponsors already have set up defined contribution plans, data from the Employee Benefit Research Institute, Washington, shows the asset base of defined contribution plans is growing at a significantly higher rate than defined benefit plans, even though market returns on assets have been at the same level for both types of plans.

Based on figures provided by EBRI, defined contribution plans grew at an annualized 18.7% for the four years ended March 31, compared with 11.8% for defined benefit plans.

Employee benefits consultants interviewed said the growth is coming from the small- to midsize funds that are setting up 401(k) plans as their primary retirement plans, setting up such plans to supplement defined benefit plans, or replacing defined benefit plans with defined contribution plans.

They said many of these new clients held back from starting 401(k)s until this year because they feared the plans might lose their appeal as tax shelters during the course of tax reform. After tax changes were final and the 401(k) emerged as an attractive alternative to the individual retirement account, they said, those fears were wiped out and telephones started ringing (*see accompanying story*).

"We have not seen a decrease in participation in 401(k) plans as a result of tax reform," said Melvin Borleis, managing director-central region in the Deerfield, Ill., office of William M. Mercer-Meidinger-Hansen Inc.

The interest among plan sponsors for starting defined contribution plans reflects an ongoing trend.

Aetna Life Insurance Co., Hartford, Conn., for example, has experienced a dramatic shift in assets from defined benefit to defined contribution plans during the past three years. T. Jerald Moore, vice president-employee benefits division, said in that time total deposits moved from one-third in defined contribution accounts to two-thirds in defined contribution accounts today.

Mr. Moore said most of the new defined contribution plan business came from 401(k)s. Especially popular were 401(k) products that allow employees to choose their investments, and guaranteed investment contracts were a very popular option for those products, Mr. Moore said.

EBRI reports that while the amount of assets in defined benefit plans is greater than the amount of assets in defined contribution plans, the assets of the latter are expanding at a much faster rate.

At the end of the first quarter, there was $644.4 billion in assets for defined benefit plans compared with $395.5 billion for defined contribution plans. But defined benefit plans grew 56%, or 11.8% compounded annually, since March 31, 1983, while defined contribution plans grew 99%, or 18.7% compounded annualized.

Joe Piacentini, an EBRI research analyst, said the reason for these trends is complex. He said some explanation can be found in defined benefit plan terminations, but that's not the whole story.

For instance, he speculated the percentage of defined benefit plan assets being paid out in the form of benefit payments was much higher than that for defined contribution plans. Defined benefit plans are more mature than defined contribution plans, and as defined benefit plans mature, so do their participants, creating a larger population of retirees.

Paul Troup, a consultant with Mercer-Meidinger-Hansen in Atlanta, said he believes defined contribution plan assets will continue to increase at a faster rate than assets of defined benefit plans. But at the same time, defined contribution plan start-ups will slow to a trickle.

"In the past few years we set up hundreds and hundreds of 401(k) plans," Mr. Troup said. "By now almost everyone who was going to get one has got one."

Mr. Borleis said data from a study on defined contribution plans conducted at the end of 1986 reveals more than three-quarters of plan sponsors have set up defined contribution plans.

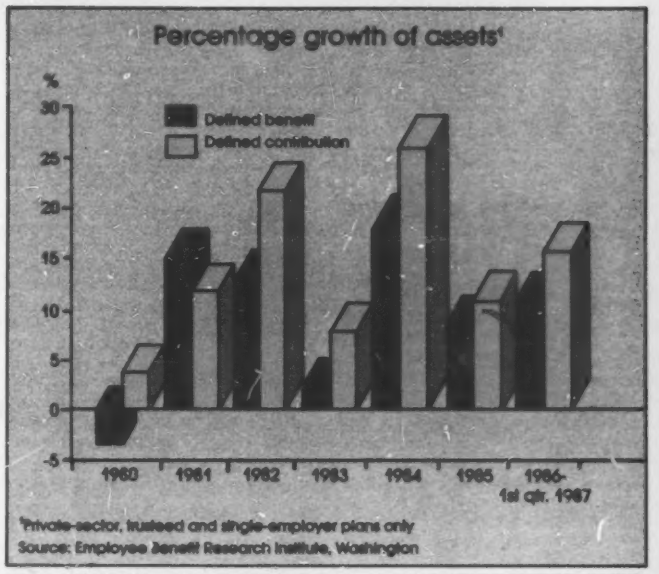
"In 1986 when we did one study covering 824 companies, out of those, 63% had (defined contribution) plans and another 19% were considering them," Mr. Borleis said. "We did another survey at the end of 1986 of 771 public and private plans, and that showed 82% already had some type of defined contribution plan."

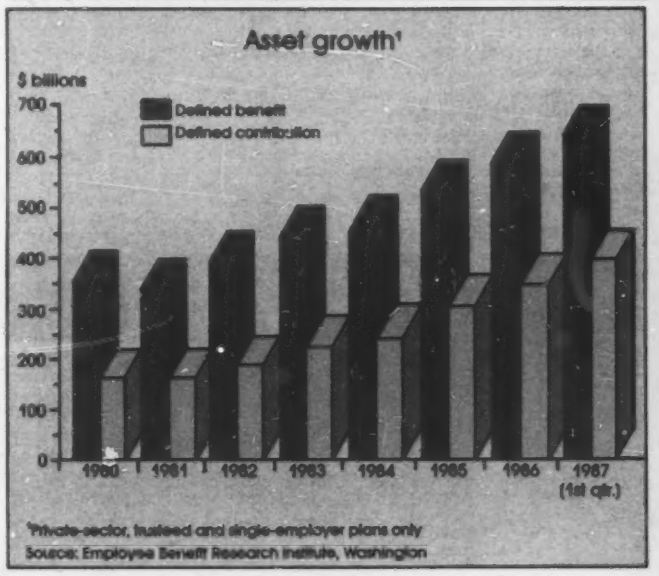
That latter study showed 401(k) plans were by far the most popular defined contribution plan. According to the study, 56% of all defined contribution plans were 401(k) plans, with profit-sharing plans a distant second at 16%. Fewer than 10% of companies with defined contribution plans had established other types of plans.

Employee benefits consultants agree the large-company market for defined contribution plans is saturated. But they said there is room for growth among the small- to intermediate-size companies.

Prudential Asset Management Co., Florham Park, N.J., is getting activity from hospital and union funds that want to set up 401(k) plans. Steve Benson, vice president, said the saving plan is appealing to hospitals because they urgently need to cut costs but fear

Continued on page 21





Managers get crack at assets

By Trudy Ring

Independent investment advisers and internal staff are increasingly popular as managers of profit-sharing plans, while insurance companies' guaranteed investment contracts continue to attract the biggest share of 401(k) money.

Few profit-sharing plans allow employees to direct investments, so those plans' officers tend to pick much the same managers as they do for their defined benefit plans.

"What we've been seeing there for some time is what we've seen for defined benefit plans," said Noel Feldman, consultant in Hewitt Associates' Santa Ana, Calif., office, explaining the growing popularity of non-bank, non-insurance company managers.

While comprehensive data on defined contribution plans are not available, studies have been done on profit-sharing plans.

Continued on page 20

401(k)s surviving tax reform

By Fred Williams

The Tax Reform Act of 1986 has not had the dampening effect on 401(k) plans many benefits experts once feared, but some believe the law's full effect is still to be felt.

One year after the tax system overhaul, 401(k) plans remain as popular as ever, despite operating under significantly different rules.

Surveys of large corporate 401(k) plans by two major benefits consulting firms have found tax reform has had little impact on employee participation, insignificant disruption caused by the $7,000 annual limit on elective deferrals (from $30,000 under previous law) and minimal hardship withdrawal problems because of enhanced loan activity.

GRACO Inc., Minneapolis, where this worker stands watch at the controls of a parts machining center, will have to lower the maximum contribution allowed higher-paid employees to pass the new non-discrimination test brought on by the Tax Reform Act

The changes in 401(k) provisions were designed to generate an estimated $3.4 billion for the U.S. Treasury between 1987 and 1991.

The new non-discrimination test, designed to reduce the disparity in deferrals between highly paid employees and moderate- to low-income workers, has caused some reaction in the $15 million 401(k) plan at GRACO Inc., Minneapolis.

Karen Chapin, benefits manager, said the plan has passed the tests in the past and has allowed contributions of up to 15% of salary, but that will have to be lowered this year to 8% to 10% for the higher-paid employees (those paid more than $50,000) in order to comply.

She said GRACO management also has given some consideration to establishing a non-qualified plan for higher-paid employees.

GRACO has had a loan provision since the plan was established in 1972 and "that has helped us and is part of the reason we have done as well as we have on the non-discrimination tests," Ms. Chapin said.

The $5 billion American Telephone &

Continued on page 18

Managers . . .

Continued from page 15

According to a study by Hewitt and the Profit Sharing Council of America, Chicago, these managers increased their portion of the profit-sharing market to 35.8% in 1986 from 29.7% in 1985. The study covers more than 400 profit-sharing plan sponsors.

Internal management's share rose to 24.8% from 18.3%. Mr. Feldman said that may be due in part to increases in the value of company stock held by internal management staffs. Not every plan investing in company stock keeps it in-house, however; some have independent managers or banks hold the stock.

Banks and insurance companies' market shares also rose in the survey, but not at the pace of the investment advisers and internal managers. Banks' share rose to 17.5% from 16.2% and insurance companies' portion grew to 16.8% from 14.2%.

Mutual funds had only 1.9% of profit-sharing assets in 1986; they were not given a separate category in the 1985 survey, but were grouped with "other" investment arrangements. That category had only 3.2% in 1986, down from 21.6% in 1985; however, the 1985 figure may have been inflated by some respondents' confusion about what went into that category.

Not surprisingly, the survey also indicates the larger the plan, the greater the percentage of its assets with independent managers; the smaller the plan, the greater the percentage with banks, said David L. Wray, president of the Profit Sharing Council.

Money management for 401(k) plans is a different creature. While survey data similar to that on profit-sharing plans is not available, most industry sources estimate 70% of the assets of these plans, which tend to be employee-directed, goes into GICs.

"I think you're always going to see (GICs) in defined contribution plans, especially where employees have the choice of where their money goes," said William E. Heisler, vice president and director of marketing for Capitoline Investment Services Inc., Richmond, Va.

However, the presence of Capitoline and other active GIC managers in this market indicates that while the insurance companies remain the sellers of GICs, other types of firms can claim market share for GIC management. Capitoline and several other non-bank managers have made significant inroads in this area, and banks are getting into the act, too.

First Wachovia Corp., Winston-Salem, N.C., and Atlanta, recently has begun offering a pooled GIC fund. "We've found that to be absolutely indispensable," said Dick Burgin, vice president and sales manager in the Atlanta office. First Wachovia is signing up clients for the fund now and expects to have it operating in January.

IDS Trust Co., Minneapolis, which puts itself in the independent manager category, has found its combination GIC and money market fund to be successful in attracting 401(k) assets. The fund, which is always 75% in GICs and 25% in money market instruments, is popular because it's easy to administer and to explain to participants, said Gailen Krug, vice president-client services.

Market share of profit-sharing plan assets*
Mutual funds 1.9%
Other 3.2%
Banks 17.5%
Internal management 24.8%
Insurers 16.8%
Investment advisers 35.8%
*As of Dec. 31, 1986
Source: Hewitt Associates, Lincolnshire, Ill.; Profit Sharing Council of America, Chicago

About $300 million of IDS Trust's $1 billion under management is in this fund.

Some mutual fund companies have begun to offer GIC funds, Hewitt's Mr. Feldman added. "Mutual funds use it as one extra arrow in their quiver," he said.

Noel Feldman has tracked the growth in defined contribution plans' use of independent firms.

The Vanguard Group of Investment Cos., Valley Forge, Pa., offers a commingled GIC fund through a division, Vanguard Fiduciary Trust Co. It is not a publicly traded mutual fund, but is available only to plans that offer other Vanguard funds as investment options. "The existence of that pool has been very important to our overall success," said Ben Bowditch, senior vice president-investment marketing.

The fund has been operating for four years; since then, it has placed more than $500 million in GICs, Mr. Bowditch said.

For equity options offered in 401(k) plans, sponsors usually choose mutual funds and bank-managed stock index funds.

"Where active management has been the vehicle, mutual funds have been used," said Catherine Higgins, president of Buck Pension Fund Services Inc., New York. "For passive management, banks have been used."

Both types of managers have their appeal for participants — mutual funds, because they can follow the publicly traded funds' performance daily; stock index funds, because they promise to match market returns.

As investment options in 401(k) plans proliferate, mutual funds will benefit, Mr. Feldman said. "I haven't seen any industry benefit more from any law than the mutual fund industry under section 401(k)," he said.

Recently proposed Department of Labor regulations, which would require sponsors of employee-directed plans to provide a broad range of investment choices, may benefit mutual funds further (*Pensions & Investment Age*, Sept. 21). The proposal would put into law what sponsors always have found attractive about mutual funds — the availability of a family of diversified funds, Vanguard's Mr. Bowditch said.

Organizations that can provide trusteeship and participant record-keeping as well as money management for 401(k) plans have an edge in attracting business. "We find that many of our prospects find a lot of value in all services under one roof," Ms. Krug said.

"Increasingly, plan sponsors would like to have it all in one place," Mr. Bowditch added.

While some large companies do their 401(k) record-keeping in-house, many sponsors find it too much of a headache.

"It's absolutely the Achilles' heel of these plans," Mr. Burgin said.

It also can be problematic to have different firms as trustees and record-keepers. Having one provider perform both services "eliminates a lot of the administrative functions," said Sook-Kuen Chang, vice president of Bankers Trust Co., New York.

Banks tend to be the trustees of 401(k) plans, while those sponsors who don't do record-keeping in-house may hire either banks, insurance companies, mutual funds, specialized money management firms or benefit consultants. ■

Q. *What did the big pension funds begin doing differently in 1986?*

A. They bought $15 billion worth of portfolio insurance from Ætna.

Q. *How can I do what they did when I only want to invest as little as $100,000?*

A. Talk to your Ætna representative about pooled *guaranteed* equity management — Ætna's innovative portfolio insurance* alternative for pension plan sponsors.

*Using technology developed by Leland O'Brien Rubinstein Associates

Ætna *Work with the Best in the Business*

Ætna Life Insurance Company, Hartford, CT 06156

We are pleased to announce that

James F. McVeigh

has joined

Delaware Investment Advisers

as

Vice President

of

Institutional Portfolio Services

DELAWARE GROUP

One Commerce Square
Philadelphia, Pennsylvania 19103

One of the nation's oldest professional money managers, the Delaware Group has over $20 billion in assets under management with $14.7 billion in assets invested for large investment advisory clients and over $5.3 billion in assets for shareholders in our 16 mutual funds.

Insurer survey shows no pause for 401(k)s

The Tax Reform Act of 1986 has had a minimal impact on 401(k) plans, according to a survey released by Massachusetts Mutual Life Insurance Co., Springfield.

The average deferral percentage of higher and lower-paid employees generally was expected to decline because of the changes in tax laws. However, the survey showed that tax reform had very little impact on deferral rates, said Edmond F. Ryan, pension vice president of the Mass Mutual Group.

The survey also shows tax changes had much less than the expected impact on the establishment of 401(k) plans. Seventy-two percent of those companies polled that did not have a 401(k) plan indicated tax reform would not affect the possibility of their starting one in the future, Mr. Ryan said.

A copy of the survey can be obtained by writing to B.J. O'Keefe, director of group pension marketing, at Massachusetts Mutual, 1295 State St., Springfield, Mass. 01111. ■

International

Path to Third World rocky

By Marlene Givant

NEW YORK — While most executives investing fund assets abroad are concerned about portfolio allocations among the world's largest stock markets, the smaller group of institutions investing in Third World markets has much wider-ranging concerns.

Members of that group include the $7.4 billion United Nations Joint Staff Pension Fund and the $34 billion Teachers Insurance and Annuity Association — College Retirement Equities Fund, both of New York, the $2.6 billion Common Fund endowment, Fairfield, Conn., and Yale University's endowment, New Haven, Conn.

Among the complaints are roller-coaster price fluctuations, a lack of company information and research, restrictions on foreign investment, poor liquidity, high execution costs, securities settlement difficulties and currency instability.

U.S. investors also must muddle through different accounting and tax laws and reports written in foreign languages.

In many emerging countries the government controls most companies, either directly or indirectly, said Vinod B. Bavishi, founder and executive director of the Center for International Financial Analysis and Research Inc., Princeton, N.J.

So local analysts working for government-owned financial institutions may not have an arm's-length assessment of the companies they research. Also, investment researchers in most countries don't get rewarded for good recommendations as they do here, he said.

The center has developed the Worldscope international financial data base in conjunction with Wright Investors Services, Bridgeport, Conn.

Helping to fill the information void, it plans to expand Worldscope by including the past seven years of financial information on the 500 largest companies in 10 emerging markets. And the International Finance Corp., Washington, a division of the World Bank, will release for institutions its IFC Emerging Markets Data Base, covering more than 300 stocks in 20 Third World countries.

Despite the information problems, investors expect the markets' potential to offset the risks.

Emerging countries have a gross national product per capita of $5,000 or less, according to the IFC.

The 20 most developed of the developing countries represent 15% of world GNP and their stock market value is 2% of GNP, said David Gill, director-capital markets department of the IFC.

"Hypothetically, for 2% you buy 15% of the world. (Price-earnings) and book-to-price ratios are lower than Organization for Economic Cooperation and Development stock markets, and economic growth rates and real GNP growth rates are two percentage points higher on average than those in mature economies. In addition, some of these markets have negative correlations with (markets of) mature economies," Mr. Gill said.

While liquidity of emerging markets is a far cry from that in the United States, it is in many cases comparable to that of European markets, said Antoine van Agtmael, author of "Emerging Securities Markets," which has become an industry textbook since its publication several years ago.

Taiwan's $22 billion 1986 trading volume exceeded that of Spain, Belgium and Denmark. Brazil's $29 billion volume exceeded Australia's $26 billion during that period.

The leading stocks in larger emerging markets have a float — or percentage of shares available to the public — of 25% to 60%, which is comparable to that of the U.S. over-the-counter market and midsize European markets.

Market turnover ratios in Taiwan, South Korea, Mexico, Thailand and Brazil were between 20% and 124% in 1986, compared with 20% to 60% in major international markets.

"Relative to the size of the markets, these turnover ratios are comparable," said Mr. Agtmael, who is president of the newly launched registered investment adviser, Emerging Markets Investors Corp., an affiliate of the World Bank spin-off Strategic Investment Partners.

But investments in these small markets must be small and staggered.

CREF's Virgil Cumming says the fund invests in South Korea and Taiwan.

Pierre Henchoz, chief of the investment management section of the United Nations, said "We think for each emerging market investment, we should have at least 0.5% to 1% of equities. That's a big amount, although a relatively small percentage of equities.

"You can't put $50 million in a certain market when the market cap is very small. I'm concerned everyone is just looking to invest (for the short term). The day the investment community will sell at the same time, we might have a severe correction. But as long as we're long-term investors, sooner or later liquidity and market capitalization will be tremendously greater than today."

"The market capitalization of LDCs — $130 billion — is expected to exceed $500 billion by the end of the century. That's where you have to look," he said.

Because portfolios investing in emerging markets and emerging companies usually contain a large number of stocks, the Common Fund and Yale University endowments formed a partnership fund

Continued on page 32

Funds provide execs the most for the least

Given the limitations of investing in Third World markets, pension executives are using mutual funds and country funds for high performance with minimal hassles.

These funds free institutions from responding to foreign investment regulations and tackling the exhaustive research emerging markets demand.

Developing countries, such as Taiwan, South Korea, India and Brazil, like the control afforded them by country funds.

"Their main concern is if they let you take money out tomorrow, then their currencies will collapse," said Vinod Bavishi, executive director and founder of the Center for International Financial Analysis and Research, Princeton, N.J.

"They could limit the amount taken out each month. They're worried that companies will be vulnerable to foreign control.

"Country funds (and emerging-market mutual funds) would not like to own companies and are more positively received. Some countries (such as India and South Korea) are allowing managers to selectively come in through funds. That gives them better control so they can set ground rules to their liking."

A problem with country funds in popular emerging markets is that premiums tend to be quite high. Such is the case in South Korea.

"The Korean outlook is attractive but we have not found an attractively priced way into the market," said Laura Luckyn-Malone, vice president of the New Asia Fund managed by Scudder, Stevens & Clark, New York.

Launched in June, the New Asia Fund invests 78% in Japanese and Hong Kong emerging growth companies and in Southeast Asian emerging markets. India is one of the most attractive markets, she said.

The International Finance Corp., Washington, a division of the World Bank that is advising 20 of its 132 member governments on international investing, and underwrites and invests in several country funds and private placements, recently launched the Emerging Markets Growth Fund, managed by Capital Research & Management

Continued on page 34

Institutional influence to grow in Japan

By Joel Chernoff

NEW YORK — Institutional investment managers will show a much stronger influence on Japanese stock prices during the next five years, according to Anne Cabot, international marketing manager for Sanyo Securities Co. Ltd., Tokyo.

Conventional wisdom suggests the "Big Four" Japanese securities firms have an undue influence on stock price moves, but the situation actually is more subtle and complex, she said.

Four external factors exert pressure on stock prices in Japan: government and financial regulatory agencies; securities firms; investment networks; and speculators, Ms. Cabot said at a recent Institute for International Research conference.

The Tokyo market is roughly where the U.S. market was 20 years ago. While institutional investors accounted for a majority of trading in the United States since the late 1960s, it was only last year that institutional managers crossed the 50% of trading threshold.

Government influence on the Japanese stock market is subtle, often coming through suggestions or oral communications, Ms. Cabot noted. The government also can shift tax and monetary policy to encourage investment policy.

In addition, the Tokyo Stock Exchange has either eased or toughened margin requirements to stimulate or dampen market movement at key times, she said.

The Big Four securities firms — Nomura Securities Co. Ltd., Daiwa Securities Co. Ltd., Yamaichi Securities Co. Ltd. and Nikko Securities Co. Ltd., all of Tokyo — traditionally have had a strong effect on individual stock practices.

Because Japanese salesmen have lifelong employment, they adhere to company directions on selling stocks to their retail customers, Ms. Cabot said.

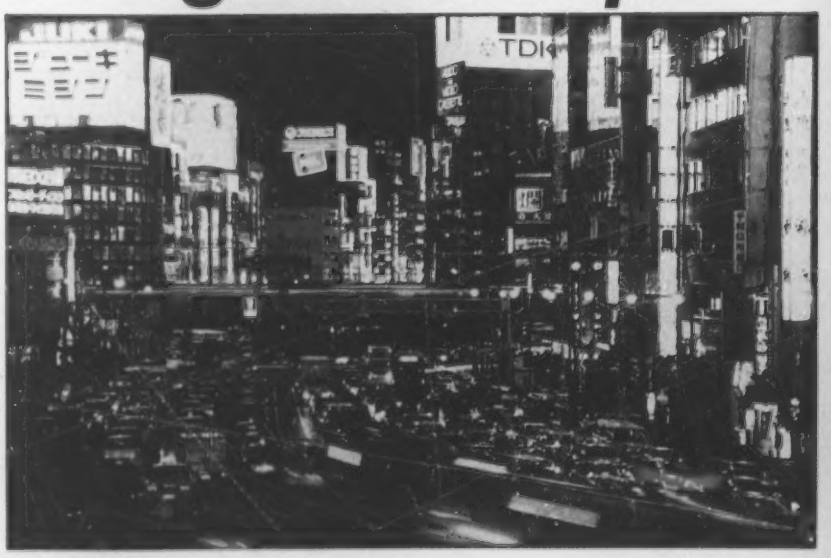
Securities firms still get about 70% of revenue from commissions, and 30% of commission income stems from margin trading, she added.

That in turn leads to increased portfolio turnover; last year, margin trading doubled.

But the surge in institutional buying has caused the relative impact of margin trading to decrease to less than 20% of total market activity, Ms. Cabot noted.

The Big Four still dominate total trading because they have picked up new institutional business from "tokkin" funds and investment trusts.

Continued on page 34



Institutional investment managers are expected to play an increasingly important role during the next five years in the Tokyo market, the financial capital of Japan and home of the "Big Four" Japanese securities firms.

The most . . .

Continued from page 31

Co., Los Angeles. The fund, which invests in Chile, Brazil, Jordan, Mexico and several Southeast Asian markets, rose 60% to 70% between mid-1986 and Sept. 30. Investors, including representatives of the IFC, are on the board and take part in market decisions.

Investors and researchers acknowledge the trials of Third World investing but are bullish for the long term.

Just because a country has severe debt problems doesn't mean its market will do poorly. Mexico, the Philippines and Argentina have done extremely well despite their problems, said Walter P. Stern, chairman of the investment committee of Capital Research & Management.

"The markets are more risky, but commensurate with that we hope for more return. They're less perfect by definition than developed markets. Whenever there are imperfect markets, there should be value."

The top-performing emerging markets this year have been Mexico, Taiwan, South Korea, Malaysia, Thailand, Greece and the Philippines, according to the IFC Emerging Markets Data Base.

In dollar terms, the Mexican market index rose 134% in the first six months of this year. The market's capitalization has nearly quadrupled from its $6 billion level in January, more from price appreciation than new inflows, although capital outflows in Mexico have been reversed this year.

Korea's index rose 61% and Taiwan's rose 87%. Brazil's index was down 59% for the six months. The Brazilian market is so volatile its plunge was interrupted by a 20% rise in only two weeks in late spring, according to the IFC.

"The Philippines was the flavor of the month a few months ago but the latest coup attempt has cooled it off. In my view, the big daddy of emerging markets is going to be China, and the way to play that is through Hong Kong" by investing in such companies as **Hopewell Holdings**, which builds power stations and major highways in China, said Lester Sturgess, senior vice president, James Capel & Co., New York.

"If Hong Kong's reabsorption into China is as good as we hope, Hong Kong's relationship to Peking will be like New York's relationship to Washington," he said.

Executives at Hoare Govett Inc., New York, believe South Korea has all the factors a promising Third World market should have: political stability, export-led growth and good control of inflation, unemployment and the money supply. The firm also is bullish on Brazil because its inflation has fallen, it has control over its economic policy, political stability, a wealth of natural resources and a capitalist mentality, said Christopher J. Curwen, vice president-international equities.

"We believe Asia has been the fastest-growing market for 10 years and think that will continue. Where there's high GNP growth, there's a favorable environment for strong corporate growth. That drives stock markets," said Ms. Luckyn-Malone of the Scudder New Asia Fund.

Country funds often are the only vehicle through which foreigners may invest in a given market.

The Templeton Emerging Markets Fund Inc., however, does not invest in country funds. It buys companies listed on major stock exchanges, as long as they conduct at least 50% of their business in the Third World. Such companies include **Antofagasta Holdings PLC**, a London-listed company that operates a railroad, mines and copper processing plants in Chile, and **Ocean Wilsons PLC**, another London-listed company that operates tugboats along the coast of Brazil and owns a truck dealership there.

Templeton's low-turnover, bottom-up approach is well suited to investments in Third World markets.

"If you were top-down, you could easily eliminate most countries (we invest in) because the macroeconomic picture looks so bad," said Mark Mobius, president of the fund. He only looks at macroeconomic factors insofar as they affect a company's earnings.

Templeton International, Fort Lauderdale, Fla., which runs the New York Stock Exchange-listed closed-end mutual fund from Hong Kong, plans to launch a similar fund in Europe for institutions.

In addition to research demands, Mr. Mobius said the fund requires special attention to back-office problems, especially in markets like Chile, where its global custodian, Chase Manhattan Bank, New York, has no custodial relationship as yet.

"We find ourselves doing a lot of work the custodian should be doing. We push (banks), get them moving, overcome legal hurdles to getting into a country," Mr. Mobius said.

The Templeton fund was established as a closed-end fund "because we don't think it's fair for them to get into an open-end mutual fund and not be able to get out. We have to approach it as a long-term investment. Liquidity isn't there and there are strict foreign exchange controls. Getting money out may be difficult," said Mr. Mobius.

Despite the enormous gains in some emerging markets, Grantham, Mayo, Van Otterloo & Co. International, Boston, which uses quantitative approaches, is deterred from investing in the Third World because of the lack of reliable company data.

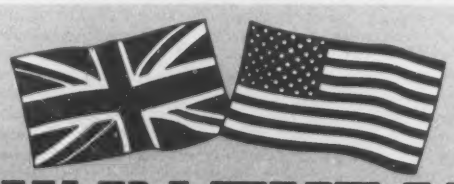
"We're not yet willing to put work into it until we're sure it will be worth it for the long term," Margaret McGetrick, portfolio manager. "Right now, most markets are too closed to foreigners. To directly invest in Brazil, you have to be approved by the Brazilian authorities, create a fund of at least 10 companies, invest evenly in each company and invest for a certain amount of time. You also must be associated with a Brazilian fund. After cutting through those restrictions, you're free to deal with inflation and the market going down." ■

— Marlene Givant

IFC Emerging Markets Indexes* returns
December 1975 = 100

	1980	1981	1982	1983	1984	1985	1986	1987 1st qtr.	1987 2nd qtr.
ASIA									
India	397	490	462	500	480	967	904	823	734
Korea	292	438	477	453	493	641	1,007	1,404	1,520
Thailand	214	174	210	231	192	183	302	341	407
LATIN AMERICA									
Argentina	743	351	118	183	146	134	120	152	139
Brazil	108	95	80	101	165	265	217	116	138
Chile	3,288	1,716	848	668	504	656	1,884	1,834	1,910
Mexico	520	340	73	163	197	289	480	908	1,422
OTHER EMERGING									
Greece	114	82	106	58	49	61	105	144	NA
Jordan[1]	235	318	343	321	252	270	285	349	287
Zimbabwe	299	130	88	66	70	208	243	276	349
DEVELOPED MARKETS									
MSCI World	199	193	214	264	279	396	567		
USA	191	182	221	271	288	379	449		
Japan	249	287	264	329	384	548	871		

* All indexes are converted to U.S. dollars at the end of each period. The IFC indexes are shown with dividends reinvested in the issuing stock. The S&P 500 and MSCI World indexes assume that dividends are reinvested in the basket of stocks.
[1] The Amman Financial Market began operations in 1976.
Source: IFC Emerging Markets Data Base, Morgan Stanley Capital International, Standard & Poor's



NOW IN THE USA

The Exchange Telegraph Company, founded in London in 1872, was the FIRST company to collate and transmit London Stock Exchange prices...

EXTEL FINANCIAL, created of this heritage, having a reputation for excellence in collecting and disseminating Financial Information and News – for the London, Tokyo and European markets, NOW OFFERS YOU QUALITY FINANCIAL SERVICES IN NEW YORK incorporating –

* EXSHARE

Information on Pricing and Corporate actions on over 100,000 International Securities. Almost certainly the most widely used computer readable database of its kind in the world.

* EXBOND

Computer-readable database of the Terms and Conditions of over 10,000 International and Eurobonds (compatible with Exshare).

* CARD SERVICES

Offer an unrivalled, compact source of facts, figures, background and news, on local, UK, European, and International companies.

EXTEL Financial

FINANCIAL DATABASE PRODUCTS · FINANCIAL SERVICES
PUBLISHED FINANCIAL INFORMATION

For these services, call KEVIN HICKEY Tel: (212) 513-1570.

EXTEL FINANCIAL (US) LTD, 150 BROADWAY, NEW YORK NY 10038

Institutions . . .

Continued from page 31

And stock prices still can be manipulated through "rescue campaigns" when customers are sitting on margin losses, sometimes in concert with other firms.

But institutional fund managers are boosting their influence on the market. With the recent flood of new money under management, investment managers are forming study groups to determine economic trends and market strategy. Those groups can have a larger influence than the Big Four, Ms. Cabot said.

Consensus buying dominates the fund manager networks, she explained. The groups are most active after a significant correction. Managers avoid individual responsibility through consensus buying, and that enables everyone to participate in market gains.

But the impact of this policy wanes after managers achieve a "reasonable profit," Ms. Cabot said.

But international portfolio management techniques are becoming more widely accepted. This trend is bolstered as Japanese portfolio managers join foreign firms but remain with their study groups, thus introducing both outside investment ideas and new strategies to their peers, she said.

Speculator groups also can have a significant impact on the market for specific stocks, sending some through dramatic run-ups but also through unnerving crashes, Ms. Cabot said.

While the returns can be spectacular, the risks for outsiders do not justify the returns, she added.

Stocks bolstered by rumors performed better than the overall market during the past year, according to a study by Sanyo, but failed to return as well as the 50 best performing stocks, suggesting "hot information" might not be the best. ■

Wickes' way . . .

Continued from page 45

payments.

"They are aware these are a pain in my side," he said of the banks with surcharges.

He said the surcharge is one negotiating item as Wickes considers consolidating lockbox banks. He said Charlotte is becoming a better site for lockboxes. "Atlanta may or may not be part of the total picture as we move forward," he added.

Also, the company is considering moving payment of its payroll taxes to Continental Illinois and another bank Mr. King declined to identify. He said Wickes would stop making the payments to five banks serving as collection agents. He declined to identify the banks.

He said the negotiations focused on the two banks' willingness to share some of the float they receive from the payments. In return, Wickes would consolidate its tax payments with the two banks.

He said Wickes, like all companies, makes payments with immediately available funds. The banks, however, have one day of use of the funds before turning the payments over to the government.

Although Wickes centralizes collection and disbursement, it decentralizes among its 70 units the information content of its cash and working capital management operations. Its working capital control is accomplished by weekly review of actual cash receipts and expenditures of each of its units, all done by computer. "We try to eliminate work with paper as much as possible," he said.

In the analysis, Mr. Lesar said he and his staff compare the actual cash flow to each unit's annual budget as well as its latest four-month forecast, updated monthly. The analysis points out any notable variances, enabling the company to make such adjustments as reducing purchases if sales have fallen more than expected.

"The company has structured itself to be cash driven," Mr. Lesar added, "and it's the ultimate product of the cash flow reports.

"It forces the units to focus on working capital" and its impact on cash, he said. ■

Payden & Rygel index of short maturity assets*

(for month ended September 30)

	September 1987	Quarter ended 9/30/87	Year to date	12 months ended 9/30/87	Yield level monthly change[a]
90-day	0.4747	1.4083	4.3341	5.6863	36
U.S. Treasury bill	0.4094	1.5457	4.7223	6.1948	103
Domestic C.D.	0.4105	1.5759	4.7883	6.3322	110
Eurodollar C.D.					
180-day	0.3184	1.2106	4.1549	5.5269	53
U.S. Treasury bill	0.1993	1.2826	4.1188	5.5261	96
Domestic C.D.	0.1939	1.3132	4.1688	5.6508	100
Eurodollar C.D.					
1-year	−0.0044	0.7415	3.1578	4.5464	69
U.S. Treasury note					
2-year	−0.4427	−0.0253	1.3397	3.0076	63
U.S. Treasury note					

*Figures are unannualized total returns. Year-to-date and 12-month figures linked monthly. Ninety- and 180-day Treasury bill yield level changes on discount basis.

[a]Basis points.

Source: Payden & Rygel, Los Angeles

Alcoa . . .

Continued from page 45

First Boston Co. and Salomon Brothers Inc., both based in New York, manage Alcoa's domestic paper program.

"We're in the process of launching a Eurocommercial paper program by year end, if the market is right," Ms. Ambrose said.

As for the rate Alcoa expects to pay, she said, "We hope it will be similar (to the domestic rate). But we want to have a presence in Europe as well."

She said the company is willing to wait for better Euromarket conditions. "There are recent indications that rates haven't been attractive."

The company's domestic paper is rated P-2 by Moody's Investors Service Inc., New York, and A-2 by Standard & Poor's Corp., New York.

She said Alcoa's domestic program accounts for virtually all the company's short-term borrowing.

In May, Alcoa sold $150 million in 6¼% Euroconvertible debentures at par, said Cynthia Holloway, manager-financing services.

She said she believed the sale was Alcoa's only recent debt issue in the overseas market.

The convertible issue, managed jointly by Credit Suisse First Boston, Morgan Stanley International, London, and Salomon Brothers International Ltd., London, was sold with a conversion premium of about 21%.

ensions & Investment Age's ebook section includes a of upcoming events in nagement.

sponsoring a con- eting focusing on nt and wish to ase send the Sabine *Invest-* sh St.,) 649-

BEST AVAILABLE COPY

Index . . .

Continued from page 2

ers, whose assets were placed in the active equity total, might be seen by some clients as semipassive, or at least a less-risky type of active manager.

"Sponsors probably feel a lot more comfortable with a well-defined product," said Larry Davanzo, general partner of Wilshire Associates, Santa Monica, Calif., on the quants' popularity.

Of the active equity total, $289 million went to quantitatively oriented firms. The biggest chunk of that was a $225 million account to be managed by Geewax, Terker & Co., Phoenixville, Pa., for Unisys Corp., Detroit.

Sam DeKinder, executive vice president of DeMarche Associates, Kansas City, Mo., said he has seen a lot of interest in large-capitalization growth stock managers. He added active management's outpacing of index funds might indicate that those investors who wanted to index already have done so.

On the bond side, $6.3 billion went into index funds, with $6 billion of that being Manufacturers Hanover Investment Corp.'s new account for the California State Teachers' Retirement System, Sacramento.

Believed to be the largest bond indexation move ever, it is only a temporary one — the system will keep the money in the index fund for several months while it makes arrangements to bring the money in-house.

Active bond accounts drew in $568 million during the quarter, while dedicated bond portfolios attracted $159 million. Interest in dedicated bond portfolios, a hot investment strategy a few years ago, dropped off as interest rates dropped; this $159 million may not indicate a resurgence of popularity — about one-third of it was just going from one dedication manager to another.

Balanced management showed some popularity, particularly for small and middle-market funds, with $309.1 million being allocated to balanced accounts.

One very large fund, the $9.6 billion British Rail pension fund, London, also reported balanced manager selections, but these were not included in the balanced total because the accounts are largely in British securities. The managers were hired in January, but not reported until July. The hirings were part of the fund's move to external from internal management.

Selected by British Rail for balanced accounts were Mercury Warburg Investment Management, with $2.4 billion; Morgan Grenfell Investment Management, Robert Fleming Investment Management and Prudential Portfolio Managers, $1.2 billion each; Philips & Drew Fund Management, $800 million; and Martin Currie Investment Management, $400 million.

Real estate and international also were popular asset classes during the quarter. Real estate, like bond indexing, benefited from one large public fund account. Of the $764.2 million reported for real estate managers, $400 million went to Copley Real Estate Advisors, Boston, for the Washington State Investment Board, Olympia.

Real estate really hasn't experienced a surge of interest, just ongoing popularity, consultants said. Several months ago, investors were worried about the effects of tax reform on real estate prices; now, they appear to be thinking that already has been reflected in the pricing, said Ron Surz, principal of Becker, Burke Associates, Chicago.

Of the $669.2 million that went into international and global strategies, $630.7 million went to active managers and $38.5 million to index funds. International investing remains popular for diversification, Mr. Surz said.

Mr. DeKinder added pension funds, especially public ones, are far more willing to consider international than they were a few years ago. Performance also is a factor.

"Even with the recognition the Pacific Basin and the Japanese stocks may be fairly valued, if not overvalued, other marketplaces have continued to show attractive rates of return relative to domestic equity," he said.

Another means of diversification was investing in oil and gas. Cherokee Resources Inc., Palo Alto, Calif., attracted $87 million, with at least six tax-exempt investors participating. Cherokee Resources was formed to buy defaulted energy loans, secured by producing oil and gas properties, from the Federal Deposit Insurance Corp. and banks.

Tactical asset allocation attracted $285 million, all in accounts with Mellon Capital Management Corp., San Francisco. Venture capital drew $136 million: $99 million was from the State of Connecticut Trust Funds, Hartford, to Bigler Investment Management Co. ■

Professional Marketplace

To place a classified ad call Frank S. Wilton at (212) 210-0284

Positions Available

SENIOR PORTFOLIO MANAGER
U.S. SECURITIES

Well established global asset management firm seeks a senior U.S. Portfolio Manager for its int'l clients. Minimum 4-5 years experience managing U.S. equities; solid analytical background would be a plus. We offer competitive remuneration. Please send your resume in confidence to:

Personnel Dept.
NIKKO & Associates, Inc.
350 Park Avenue
New York, NY 10022

DIRECTOR

The Louisiana State Employees Retirement System, a two billion dollar pension fund in the State of Louisiana, offers a challenging career opportunity as Director for an individual with a Bachelors degree (business related field desirable), MBA preferred, and at least 5 years of diverse management experience preferably in pension plan administration. This is an upper level unclassified state government administrative position which will directly report to the Board of Trustees. Exposure to advanced automated data processing systems and public sector administrative experience is highly desirable. Salary commensurate with experience from $50,000 to $75,000 plus fringe benefits. Qualified candidates are encouraged to submit resumes to:

LSERS
P.O. Box 44462
Baton Rouge, LA 70804-4462
No later than December 1, 1987.

INVESTMENT RESEARCH

Career opportunity with highly successful private investment management firm for individual with BA Accounting/Math. Ideal candidate is Lotus 1-2-3 fluent, has a strong accounting analysis skill, high work ethic, and is challenged by the opportunity to analyze public companies. Relevant experience a ...t will train. Send resume to:

P&I Age, Box 658
...ns & Investment Age Classified
220 E. 42nd Street
...w York, NY 10017

...ESEARCH

...brokerage firm ...st to work in... ...wing pre...

EXECUTIVE DIRECTOR

for large midwestern public pension fund—nearly 40,000 members and $2.5 billion of assets. The successful applicant will supervise all aspects of the fund operations including accounting, benefit calculations, and investments, and will report directly to the board of trustees. Salary negotiable. Reply by Nov. 10 1987 to:

P&IA Box 656
Pensions & Investment Age
220 E. 42nd Street
New York, NY 10017

MERGER/ACQUISITION SPECIALIST

Chairman of publicly owned health care company is seeking an experienced and agressive individual to assit him in acquisitions of business development. MBA and experience is required. Excellent opportunity. Respond to:

Chairman
Continental Health Affiliates
900 Sylvan Avenue
Englewood Cliffs, NJ 07632

MONEY MANAGER

Money Manager, New York Area, with $25 million under management seeks to share space and/or research with money manager of similiar size. Respond to:

P&I Age, Box 660
Pensions & Investment Age
220 E. 42nd St.
New York, NY 10017

Positions Available

RETIREMENT SYSTEM INVESTMENT SERVICES COORDINATOR. The New York State Retirement Systems have an immediate opening for a Retirement System Investment Services Coordinator in Albany, New York. The Retirement Systems currently manage approximately $39 billion in investment assets. Candidate must have strong technical, communications and supervisory skills. Reporting to the Director of Accounting, the successful candidate must meet the following minimum qualifications: • Bachelor's Degree or Advanced Degree in Accounting • Certified Public Accountant • Seven years experience in analysis of accounts and preparation of financial statements, including a proven background in investment accounting using an on-line, real time EDP system, and audit experience associated with investment accounting. At least one year's experience must be as a manager in this area. • An advanced accounting degree may be substituted for one year of non-managerial experience. • Only experience in a large CPA firm or on the staff of a large financial institution, such as a bank, insurance company, investment trust or pension fund will be considered qualifying. Full benefits package available. This position is being established for an 18 month period at an annual salary range of $47,000-$50,000. Send resumes and salary history to: **Director of Accounting, New York State Retirement System, Gov. Smith Building, Albany, New York 12244** by November 23, 1987. All replies held strictly confidential.

ADMINISTRATOR - EMPLOYEE BENEFIT PLANS

Large San Francisco Bay Area based multi-employer, Taft-Hartley Benefit Funds seek strong Administrator for top position of in-house administrative operation.

The individual selected for this challenging position must have minimum of five years experience in benefits administration at senior management level and working knowledge of budgeting, financial reporting, accounting systems and computer applications. Exceptional managerial and administrative skills, coupled wth excellent verbal and written communication skills essential.

The diverse duties of this position include:

- administration of 3 defined benefit and 2 defined contribution pension plans, and 2 health and welfare plans for 43,000 participants;
- working closely with the Board of Trustees and all levels of management in direction and supervision of 150 staff members;
- cooperation and coordination of effort with Fund attorneys, actuaries, accountants, consultants, investment managers and other professionals;
- preparation of budget, project, cash flow reports relating to operation of Administrative Office;
- preparation of materials for accounting analysis, cost effectiveness and cost containment as requested by professionals;
- familiarity with applicable federal and state regulation requirements.

Successful candidate will be provided with quality work environment, outstanding benefits program and excellent salary. For confidential consideration, send resume, professional references and salary history to:

Employee Benefit Fund Administrator
Suite 1406, 41 Sutter Street
San Francisco, CA 94104
EOE M/F

Request For Proposals

The New York City Comptroller invites proposals from growth style equity advisors to manage the assets of New York City Retirement Systems (approximately $50 to $100 million per account). The advisors should have at least matched the growth style manager median as measured by Callan Associates' database and have proven ability to handle large investment sums (minimum $750 million under management). Detailed requirements are set out in a Request for Proposals. Copies may be obtained by writing:

Robert Pam
Office of the Comptroller of the City of New York
Municipal Building, Room 701, New York, New York 10007
Or call (212) 669-2014. Proposals must be received by 10:00 p.m. Monday, November 2, 1987.

ADVERTISE IN THE PROFESSIONAL MARKETPLACE AND GET RESULTS

Hedging Strategies

Free Video Tape

Learn more about the Chicago Mercantile Exchange's S & P 500 Futures & Options Contracts.

And find out how 3 portfolio managers use these contracts to control risk.

To order this free videotape, "Institutional Trading Strategies," call 1-(800) 331-3332 Dept. Z.

ADVERTISING RATES AND DEADLINES

Display ads are $151 per column inch. Frequency and size discount rates are available. Contact your Pensions & Investment Age ad representative.

Straight Classified Ads are $11.00 per line. Minimum of 5 lines. Count 36 characters per line (include all spaces and punctuations).

Blind Box Numbers are available to provide advertiser confidentiality. Replies forwarded upon receipt. For blind box numbers, add the cost of two lines ($22.00).

Replies to Blind Box Ads should be addressed to: P&IA Classified, Box # , Pensions & Investment Age, 220 E. 42nd St., New York, NY 10017.

Deadlines for camera ready material is Monday, 7 days prior to publication date. Display and straight ads to be typeset, must be received in Chicago by Friday, 10 days prior to publication. Copy submitted for straight ads must be typewritten/printed, and prepaid. Send copy and payment to Frank Wilton, Pensions & Investment Age, 220 E. 42nd St. New York, NY 10017.

BEST AVAILABLE COPY

GEIC turns . . .

Continued from page 3
equivalents during the second quarter of 1987, according to a report to be released Oct. 26 by the Employee Benefit Research Institute, Washington, and the Federal Reserve Board.

In addition to its 15% in private investments, the GE pension fund, which accounts for roughly two-thirds of the $32 billion managed by General Electric Investment Corp., invests 49% in publicly traded equities, 21% in publicly traded bonds and 15% in cash. GEIC manages the remaining one-third in excess corporate cash and mutual funds for employee savings plans and corporate funds.

International stock and bond investments represent 6% of the pension fund, which is about 98% internally managed.

GE gradually will raise investments in enhancement arenas as those markets become ripe for investment.

"Our strategy is to continue to increase our investments in enhancement arenas because we feel total investment returns will be more in private areas over the long term than in publicly traded stocks and bonds. But we don't force markets; if we don't like real estate, we'll stay out," said Dale F. Frey, GE's vice president-investments and treasurer and chairman of the board of GEIC.

Of the enhancement arenas, 60% is mostly domestic real estate equity with some debt; 30% is private placements and 10% is venture capital. The GE pension fund recently participated in debt and equity private placements for **Mattel Inc.**, a toy manufacturer, and **Health-Tex**, a children's clothing manufacturer. There is no precise target for private investments, "but I would start thinking about a cutoff if it started approaching one-third of assets," given funding obligations, he said.

For investments in publicly traded securities, the fund uses a variety of systematic approaches including a Standard & Poor's 500 stock index core portfolio and dividend discount model and low price-earnings quantitative approaches.

It also uses futures and options with the core strategy.

The fund is divided into subfunds that use various approaches. Most GEIC portfolio managers do their own research; Mr. Frey, who joined the fund in 1984, believes that is the most efficient way to generate research. Mr. Frey has been with GE for 30 years.

While he did not provide specific returns, he said most of GE's equity funds have surpassed the S&P 500 stock index in the past several years. The bond portfolio has exceeded the Shearson Lehman Government/Corporate bond index return "for many, many years." The bond portfolio has done well because the managers have been able to rapidly shift maturities to take advantage of yield curves and select appropriate bond sectors such as mortgage-backed, industrial and Treasury bonds.

International equity returns were in the 55% to 60% range in each of the past two years vs. the Morgan Stanley Capital International Europe Australia Far East index's compound annualized 63.2% return for the two years ended Dec. 31, 1986.

While Mr. Frey is optimistic about private markets, he is becoming defensive about public stock markets.

"I think the (U.S.) market is high enough that you ought to be taking profits and have some cash. We have more (cash) than we had in the last three to four years," he said.

"With the prices of most stocks it's difficult to find value but, on the other hand, supply-and-demand forces are unlike anything we've seen in the past. There is a shrinking equity market due to corporate buybacks and takeovers, yet Japanese money and other foreign money is pouring in."

To a Japanese investor, U.S. stocks look like the best bargain in town especially when compared with Japanese stocks, he said.

But Mr. Frey doesn't expect any significant correction: "I think the U.S. (bull) market could continue a while longer but prudence would say you should not be fully invested and bond market maturities should be shorter rather than longer."

Most bonds in GE's portfolio have maturities of five to seven years.

About 60% of equities are invested in non-core, non-quantitative approaches such as active growth, value and special situations.

Through arbitrage — effectively owning the index when it is cheaper than the underlying stocks — the fund's S&P 500 stock index fund, which represents 25% to 30% of equities, has been able to beat the return of the index by 10 to 30 basis points last year and so far this year. The S&P returned 18.7% in 1986.

GE does not use portfolio insurance because it's too costly given the fund's size, he said, but it does use futures and options frequently.

"One advantage of an S&P fund is that we get out of the equity market by shorting the index, selling the stocks in a matter of hours with no market impact and without having to go through the agonizing decision of what to sell," Mr. Frey said.

But quantitative approaches, like other active approaches, are not always in favor.

"Our performance has been hurt this year by systematic low p/e approaches. A lot haven't worked in this kind of market. You have to go into (systematic approaches) very humbly and cautiously because there aren't any free lunches. We're not foolish enough to think we'll stumble across a computer model that will always win in all markets."

Fund officials are thinking about investing in indexed bonds or international equities as core strategies.

While the officials aren't averse to external managers, GE only has 12, almost all for international investments.

"It doesn't make economic sense to build all of (a fund's) international capabilities in-house. You need outside contacts in other countries," he said.

Mr. Frey declined to identify the managers, but according to the 1987 Money Market Directory, they include Capital Guardian Trust Co., Los Angeles; Fidelity International Investment Advisors, Boston; Fidelity Management & Research Co., Boston; G.T. Capital Management, San Francisco; Grantham, Mayo, Van Otterloo & Co. International, Boston; Morgan Grenfell Investment Services Ltd., London; Nomura Capital Management, New York; Rowe Price-Fleming International Inc.; Oxford Partners, Stamford, Conn. (venture capital); Hill Samuel Investment Advisers Ltd., Minneapolis; and ABD International Management Corp., New York.

Marsh & Cunningham Inc., Boston, which recently invested a small amount in Brazil on behalf of GE and another fund, also is a manager (*P&I Age*, Aug. 10).

"In international, we'd feel comfortable with 10% to 15% but it's a mistake to simply set a percentage because there'll be times that it's right to be international and a time not to. We have the flexibility to move in and out of markets as we feel we should," Mr. Frey said.

International equities have increased nearly tenfold in four years, to between $820 million and $840 million from $90 million in 1983. Of the current total, $400 million is run internally.

Staff members "are given a significant amount of flexibility and freedom to make decisions quickly . . . We're not tied up in a big, bureaucratic process. I think that's what distinguishes us from the rest of the world."

GE is no newcomer to private market and other alternative investments. It was one of the first and largest funds to enter real estate 15 to 20 years ago, venture capital six years ago, international about four years ago and indexing and other systematic approaches three years ago.

The job of Mr. Frey and his direct staff is to come up with broad strategies of asset allocation, industry weightings and the kinds of portfolios to have in place. Stock selection decisions are left to portfolio managers. There are 40 investment professionals at GEIC.

Directly reporting to Mr. Frey are trustees Art Bahr, senior vice president in charge of equities; John Myers, senior vice president in charge of fixed-income and private areas; Alan Lewis, senior vice president and counsel; and J.E. Bonhiverd, senior vice president in charge of finance. The company's oversight committee reviews major asset allocation shifts.

The GE pension fund includes close to $3 billion in retirement assets from RCA Corp., which is owned by GE. While the two companies' plans are separate, the funds are mostly commingled for management purposes. Both companies' retirement plans were overfunded as of the end of 1986. ■

Borrowers . . .

Continued from page 1
tion of total volume will be swap-related," said William S. Broeksmit, a vice president at Merrill Lynch Capital Markets, New York.

But in a bear market, issuers rely on interest rate swaps to give them a cost of capital that is lower than the rate investors are getting, he said.

In the generic interest rate swap, a fixed-rate payer and a floating-rate payer exchange interest payments until the liability matures. The interest rate swap allows issuers to obtain capital from the lowest cost sources and convert those liabilities into the optimal form.

"In January and February, given where rates were, companies were not interested in interest rate protection because they did not see the need," said Avram Stein, a vice president in Chase Manhattan Bank's financial products group. "Now concern about interest rates has heightened to the point where they are saying, 'We have to protect ourselves.' "

The esoteric interest-management tools developed by Wall Street and the money-center banks are less available to companies with a low profile in the capital markets. If a company is not showered with presentations by bankers, "you've got to do your own bird dogging," said Robert B. Whittridge, treasurer of the Savin Corp., Stamford, Conn.

Of course, some companies don't need those tools as much as others.

"Many clients who did a lot of borrowing earlier in the year are able to sit back right now and be very opportunistic in this market," said Alan D. Schwartz, head of corporate finance at Bear, Stearns & Co., New York. "Other clients feel more pressure as they add commercial paper while the cost of borrowing goes up."

Although investment and commercial bankers have plenty of interest-rate management tools at their disposal, they freely acknowledge they can't turn a bear into a bull.

"If we're lucky, when rates go up 200 basis points we'll be able to save them 20 basis points on the new rate," Mr. Schwartz said.

"There's no such thing as money for nothing," said Michael S. Rulle, managing director at Shearson Lehman Brothers Inc., New York.

While strategies involving interest rate swaps and caps are complex, others, like issuing convertible debt to control interest expense, are relatively straightforward.

The simplest strategy of all — doing nothing — also is an option for corporate financial officers. But sitting on the sidelines for too long carries its own risks in a bearish bond market.

"If you don't react in advance and you wait until it (rates go up) happens, then you're obviously behind the pack," said Richard J. Clout, vice president in charge of worldwide borrowings at General Motors Acceptance Corp., Detroit. Because GMAC expected rates would rise during the summer, it substantially satisfied its 1987 funding requirements by the end of July, Mr. Clout said.

But sitting on the sidelines has emerged as the favored strategy among many issuers, according to Salomon Brothers Inc. Weekly Credit Monitor data on debt issuance volume.

While the monthly average of corporate bond issuance in 1986 was $14.1 billion, the monthly average for the first nine months of 1987 was $12.1 billion. Domestic corporate bond issuance in September, August and July was $8.7 billion, $7.9 billion and $12.9 billion, respectively.

Corporate issuers had good reason to slow their pace. The average yield of new corporate debt issues was 8.89% in February 1987, but 11.038% in September, according to data supplied by IDD Information Services Inc., New York. That figure, which excludes mortgage- and asset-backed securities, stood at 11.362% through Oct. 9.

30-year Treasury bond average yield to maturity*

Period	Yield %
Jan. 15	7.64
Jan. 30	7.64
Feb. 13	7.76
Feb. 27	7.64
March 16	7.64
March 30	8.01
April 15	8.39
April 30	8.38
May 15	9.01
May 29	8.64
June 15	8.51
June 30	8.51
July 15	8.64
July 31	8.89
August 14	8.76
August 31	9.14
Sept. 15	9.64
Sept. 30	9.76

* Yield at middle and end of month, January through September 1987
Source: Shearson Lehman Brothers Inc., New York

Rates at these levels are stalling the push toward balance sheet restructuring that gained impetus as rates fell during the middle 1980s.

While the monthly average volume of straight debt calls in 1986 was $3.4 billion, the figure for the first nine months of the year was $2.9 billion, according to the Oct. 5 issue of Financing and Market Perspectives, a Merrill Lynch Capital Markets publication. The volume of straight debt calls stood at $836 million in September, $2.1 billion in August and $2.5 billion in July.

"The drop in calls of high-coupon debt and increasing rates on new borrowings are driving interest payments up again," the publication noted Sept. 21.

Almost $27 billion of outstanding bonds with coupons of at least 12% were callable in the beginning of October, said Robert A. Schwartz, a senior financial economist at Merrill Lynch.

The decline in call volume is likely a temporary development, he said: "I think there is a sense of urgency on the part of corporations to refund these issues before rates get out of hand."

As rates escalate, an increasing number of corporate financial executives reach the "give up" stage, according to a debt syndicate official at Bear, Stearns who asked to remain unidentified.

"Some treasurers have come to the point, now that the market has backed up 250 basis points, that they are going to issue now because rates are going higher."

Current rates should be considered in an historical context, said Robert G. Scott, a managing director at Morgan Stanley & Co. Inc., New York.

Although the 30-year Treasury is nearly 10%, that security had a 15.5% yield in 1981, Mr. Scott said, noting current rates may seem worse then they actually are.

Intermediate-term fixed-rate debt is clearly preferable to the lower-coupon floating-rate debt available through commercial paper, Mr. Scott said: "I believe that over the next 24 months, floating-rate debt will average out to be more expensive than fixed-rate debt."

Although fixed-rate debt is now relatively expensive, some relief can be found.

Convertible debt, for example, is a good option for some issuers, said Gerry McGrath, a managing director at Prudential-Bache Securities Inc., New York. "For those people who have to finance and whose stock price is at or near all-time highs, and if they want to raise a good sum of money, the convertible market is quite attractive."

Shearson's "Treasury lock" insulates issuers from rising rates if there is a delay in making an offering, said Mr. Rulle, a managing director at the firm. Although the product protects issuers from an upward move in rates, it penalizes them if Treasury rates move below the target coupon.

Puts can shave basis points off a debt issue, but the strategy can backfire if investors exercise this option, said Mr. Schwartz of Bear, Stearns. Exercise of the put option defeats the issuers plan to lock up a cost of funds at a favorable fixed rate.

Liabilities denominated in Australian or New Zealand currency as well as debt issues attached to currency or commodity warrants also can lower the cost of financing, said Mr. Rulle. Issuers display a greater interest in these products when rates escalate, he said. ■